

**CITY OF HARTFORD**  
**AUDIT REPORT**  
**DECEMBER 31, 2008**

**CITY OF HARTFORD  
TABLE OF CONTENTS**

	Page
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	1-2
Independent Auditor's Report	3-4
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
Statement of Net Assets as of December 31, 2008	5
Statement of Activities for the Year ended December 31, 2008	6-7
FUND FINANCIAL STATEMENTS	
Balance Sheet-Governmental Funds as of December 31, 2008	8
Reconciliation of the Governmental Funds Balance Sheet To the Statement of Net Assets	9
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds-for the Year ended December 31, 2008	10-11
Reconciliation of the Statement of Revenues, Expenditures And Changes in Fund Balance to the Government-wide Statement of Activities	12
Balance Sheet-Proprietary Funds as of December 31, 2008	13-14
Statement of Revenues, Expenses and Changes in Fund Net Assets-Proprietary Fund-for the Year ended December 31, 2008	15
Statement of Cash Flows Proprietary Funds-for the Year Ended December 31, 2008	16
Statement of Fiduciary Net Assets - Fiduciary Funds- As of December 31, 2008	17
Notes to Financial Statements	18-40
Schedule of Current Audit Findings	41-42
Schedule of Prior Audit Findings	43

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

City Council  
City of Hartford  
Hartford, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hartford, South Dakota, as December 31, 2008, and for the year then ended, and have issued my report thereon dated March 27, 2009.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing my audit, I considered the City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hartford's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Hartford's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

I consider the deficiency described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item number

2008-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider item number 2008-01 in the schedule of current audit findings to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determinations of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*. See item number 2008-02 in the accompany schedule of current audit findings.

The City of Hartford's response to the findings identified in my audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. I did not audit the City's response and accordingly, I express no opinion on it.

This report is intended solely for the information and use of the governing board and information of the management of the City of Hartford, the South Dakota Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDLC 4-11-11, this report is a matter of public record and its distribution is not limited.

  
March 27, 2009

# Gary L. Larson, CPA

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## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Hartford  
Hartford, South Dakota

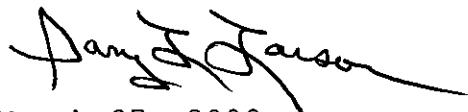
I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hartford, South Dakota, as of December 31, 2008, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hartford's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hartford, South Dakota, at December 31, 2008, the respective changes in financial position and cash flows where applicable thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with the Government Auditing Standards, I have also issued my report dated March 27, 2009 on my consideration of the City of Hartford's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

The City has not presented the Management's Discussion and Analysis nor budgetary comparison information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

A handwritten signature in black ink, appearing to read "Amy E. Hanson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

March 27, 2009

**CITY OF HARTFORD  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2008**

	Governmental Activities	Business-type Activities	TOTAL
<b>ASSETS:</b>			
Cash and cash equivalents	\$1,181,795	\$486,156	\$1,667,951
Accounts receivable	0	57,193	57,193
Taxes receivable	13,162	0	13,162
Special assessment receivables	130,857	0	130,857
Due from other governments	26,712	0	26,712
Inventories	39,179	42,083	81,262
Deferred charges	0	1,785,633	1,785,633
Restricted assets:			
Cash and cash equivalents	67,000	0	67,000
Capital assets:			
Land	19,813	149,000	168,813
Other capital assets, net of depreciation	4,537,686	6,202,952	10,740,638
<b>TOTAL ASSETS</b>	<b>\$6,016,204</b>	<b>\$8,723,017</b>	<b>\$14,739,221</b>
<b>LIABILITIES:</b>			
Accounts payable	45,358	11,438	56,796
Deferred revenue	85,966	0	85,966
Other current liabilities	6,740	33,527	40,267
Noncurrent liabilities			
Due within one year	112,373	156,506	268,879
Due in more than one year	944,802	3,167,518	4,112,320
<b>TOTAL LIABILITIES</b>	<b>1,195,239</b>	<b>3,368,989</b>	<b>4,564,228</b>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	3,517,864	3,034,060	6,551,924
Restricted for:			
Debt service	67,000	0	67,000
Unrestricted	1,236,101	2,319,968	3,556,069
<b>TOTAL NET ASSETS</b>	<b>4,820,965</b>	<b>5,354,028</b>	<b>10,174,993</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$6,016,204</b>	<b>\$8,723,017</b>	<b>\$14,739,221</b>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HARTFORD  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Capital Grants and Contributions
Governmental Activities:			
General government	\$364,241	\$0	\$0
Public safety	200,967	1,786	0
Public works	439,466	9,259	14,506
Health and welfare	1,887	0	0
Culture and recreation	257,261	14,575	0
Conservation and development	91,659	0	0
*Interest on long-term debt	143,186	0	0
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>1,498,667</b>	<b>25,620</b>	<b>14,506</b>
Business-type Activities:			
Water	487,486	394,509	38,338
Sewer	399,872	253,247	0
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>887,358</b>	<b>647,756</b>	<b>38,338</b>
<b>TOTAL</b>	<b>\$2,386,025</b>	<b>\$673,376</b>	<b>\$52,844</b>

\* The City does not have interest expense related to the governmental functions. This amount includes indirect interest on long-term debt.

**GENERAL REVENUES:**

Property taxes  
Sales taxes  
State shared revenues  
Unrestricted investment earnings  
Other general revenues

**Total General Revenues**

Change in net assets

Net Assets-beginning

NET ASSETS-ending

The accompanying notes to financial statements are an integral part of this statement.



NET (EXPENSE) REVENUE AND  
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total
(\$364,241)	\$0	(\$364,241)
(199,181)	0	(199,181)
(415,701)	0	(415,701)
(1,887)	0	(1,887)
(242,686)	0	(242,686)
(91,659)	0	(91,659)
(143,186)	0	(143,186)
(1,458,541)	0	(1,458,541)
0	(54,639)	(54,639)
0	(146,625)	(146,625)
0	(201,264)	(201,264)
(\$1,458,541)	(\$201,264)	(\$1,659,805)
664,391	0	664,391
529,445	0	529,445
60,896	0	60,896
52,211	7,224	59,435
356,907	0	356,907
1,663,850	7,224	1,671,074
205,309	(194,040)	11,269
4,615,656	5,548,068	10,163,724
\$4,820,965	\$5,354,028	\$10,174,993

**CITY OF HARTFORD**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2008**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$1,036,653	\$145,142	\$1,181,795
Taxes receivable-			
Delinquent	13,162	0	13,162
Special assessments receivable-			
Deferred	136,857	0	136,857
Due from other governments	19,406	1,306	20,712
Inventory of supplies	39,179	0	39,179
Restricted cash	0	67,000	67,000
<b>TOTAL ASSETS</b>	<b>\$1,245,257</b>	<b>\$213,448</b>	<b>\$1,458,705</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$42,237	\$3,121	\$45,358
Accrued wages	6,740	0	6,740
Deferred revenue	229,190	0	229,190
<b>TOTAL LIABILITIES</b>	<b>278,167</b>	<b>3,121</b>	<b>281,288</b>
 <b>FUND BALANCES:</b>			
Reserved for:			
Inventory	39,179	0	39,179
Debt service	0	67,000	67,000
Unreserved			
Designated for fiscal 2009 budget	860,274	0	860,274
Reported in non-major Special			
Revenue Funds	0	90,500	90,500
Undesignated	67,637	0	67,637
Undesignated-Special Revenue Funds	0	32,446	32,446
Undesignated-Capital Project Fund	0	20,381	20,381
<b>TOTAL FUND BALANCE</b>	<b>967,090</b>	<b>210,327</b>	<b>1,177,417</b>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$1,245,257</b>	<b>\$213,448</b>	<b>\$1,458,705</b>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HARTFORD**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

Total Fund Balances-Governmental Funds	\$1,177,417
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	4,557,499
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Long-term liabilities, including bonds payable and accrued leave are not due and payable in the current period and therefore are not reported in the funds	(1,057,175)
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Property taxes and special assessments receivable are reported in the period to be financed by the levy for both the governmental funds and the statement of net assets, but in the funds statement the amounts that are not "available" (within a 30 day period) are offset with deferred revenue	<u>143,224</u>
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Net Assets-Governmental Funds	<u><u>\$4,820,965</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HARTFORD**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$660,826	\$0	\$660,826
General sales taxes	496,154	33,291	529,445
Gross receipts tax	8,535	0	8,535
Amusement taxes	324	0	324
Penalties and interest on tax	1,893	0	1,893
Licenses and permits	76,009	0	76,009
Intergovernmental Revenue			
State shared revenues	72,293	0	72,293
County shared revenues	17,619	0	17,619
Charges for Goods and Services:			
Culture and recreation	14,575	0	14,575
Fines and Forfeits:			
Court fines and costs	1,786	0	1,786
Miscellaneous Revenue			
Interest earned	50,100	2,111	52,211
Special assessments	91,537	0	91,537
Contributions	3,592	0	3,592
Other	250,828	0	250,828
	<hr/>	<hr/>	<hr/>
Total Revenue	\$1,746,071	\$35,402	\$1,781,473
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The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HARTFORD**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	General Fund	Other Governmental Funds	Total Governmental Funds
Expenditures:			
General Government			
Legislative	\$21,639	\$0	\$21,639
Executive	3,770	0	3,770
Elections	740	0	740
Financial administration	208,961	0	208,961
Other	37,909	0	37,909
Public Safety			
Police	117,469	0	117,469
Fire	60,514	0	60,514
Public Works			
Highways and streets	442,949	63,180	506,129
Health and Welfare			
Humane society	1,887	0	1,887
Culture and Recreation:			
Recreation	78,000	0	78,000
Parks	139,487	0	139,487
Libraries	2,426	0	2,426
Conservation and development			
Economic development	88,194	25,143	113,337
Debt service	245,742	0	245,742
Total Expenditures	<u>\$1,449,687</u>	<u>\$88,323</u>	<u>\$1,538,010</u>
Net Change in Fund Balances	296,384	(52,921)	243,463
FUND BALANCE, JANUARY 1, 2008	<u>670,706</u>	<u>263,248</u>	<u>933,954</u>
FUND BALANCE, DECEMBER 31, 2008	<u><u>\$967,090</u></u>	<u><u>\$210,327</u></u>	<u><u>\$1,177,417</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HARTFORD**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES TO THE GOVERNMENT - WIDE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

Net Changes in Fund Balances-Total Governmental Funds	\$243,463
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period	(61,053)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	102,556
Property tax and special assessment revenues are reported in the period to be financed by the property tax levy for both the governmental funds and the governmental activities, but in the funds statement, any amounts that are not "available" are offset with deferred revenue	(77,497)
Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects this change through expenses	<u>(2,160)</u>
Change in Net Assets of Governmental Activities	<u><u>\$205,309</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HARTFORD**  
**BALANCE SHEET - PROPRIETARY FUNDS**  
**DECEMBER 31, 2008**

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Total
<b>ASSETS:</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$318,549	\$167,607	\$486,156
Accounts receivable	30,020	27,173	57,193
Inventory of supplies	37,579	4,504	42,083
<b>Total Current Assets</b>	<b>386,148</b>	<b>199,284</b>	<b>585,432</b>
<b>Noncurrent Assets:</b>			
Deferred charges	1,785,633	0	1,785,633
<b>Capital Assets:</b>			
Land	0	149,000	149,000
Buildings	0	550,000	550,000
Improvements other than buildings	3,797,936	4,778,256	8,576,192
Machinery and equipment	30,013	91,380	121,393
Accumulated depreciation	(1,210,186)	(1,834,447)	(3,044,633)
<b>Total Noncurrent Assets</b>	<b>4,403,396</b>	<b>3,734,189</b>	<b>8,137,585</b>
<b>TOTAL ASSETS</b>	<b>\$4,789,544</b>	<b>\$3,933,473</b>	<b>\$8,723,017</b>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HARTFORD**  
**BALANCE SHEET - PROPRIETARY FUNDS**  
**DECEMBER 31, 2008**

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Total
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts payable	\$6,114	\$5,324	\$11,438
Accrued wages payable	249	328	577
Customer deposits	32,950	0	32,950
Current portion of long-term debt	78,867	77,639	156,506
<b>Total Current Liabilities</b>	<b>118,180</b>	<b>83,291</b>	<b>201,471</b>
<b>Noncurrent Liabilities:</b>			
Bonds payable:			
Revenue	1,652,437	1,512,015	3,164,452
Accrued leave	1,533	1,533	3,066
<b>Total Noncurrent Liabilities</b>	<b>1,653,970</b>	<b>1,513,548</b>	<b>3,167,518</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	887,992	2,146,068	3,034,060
Unrestricted net assets	2,129,402	190,566	2,319,968
<b>Total Net Assets</b>	<b>3,017,394</b>	<b>2,336,634</b>	<b>5,354,028</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$4,789,544</b>	<b>\$3,933,473</b>	<b>\$8,723,017</b>

The accompanying notes to financial statements are an integral part of this statement.



**CITY OF HARTFORD**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	ENTERPRISE FUND		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Charges for goods and services securing payment of revenue bonds	\$394,509	\$253,247	\$647,756
OPERATING EXPENSES:			
Personal services	33,055	32,053	65,108
Other current expense	19,721	57,923	77,644
Cost of goods sold	81,982	0	81,982
Depreciation and amortization	283,363	242,816	526,179
Total Operating Expenses	418,121	332,792	750,913
Operating Income (loss)	(23,612)	(79,545)	(103,157)
Non-operating Revenue (Expense)			
Interest earned	5,606	1,618	7,224
Interest expense	(69,365)	(67,080)	(136,445)
Total Non-operating Revenue (Expense)	(63,759)	(65,462)	(129,221)
Income (loss) before contribuitons	(87,371)	(145,007)	(232,378)
Capital contributions	38,338	0	38,338
Change in Net Assets	(49,033)	(145,007)	(194,040)
NET ASSETS, BEGINNING	3,066,427	2,481,641	5,548,068
NET ASSETS, ENDING	\$3,017,394	\$2,336,634	\$5,354,028

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HARTFORD**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	ENTERPRISE FUND		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities:			
Receipts from customers	\$390,401	\$250,533	\$640,934
Receipts for interfund services	5,848	555	6,403
Payments to suppliers	(107,413)	(58,243)	(165,656)
Payments for interfund services	0	(332)	(332)
Payments to employees	(32,505)	(31,438)	(63,943)
Net Cash Provided by Operating Activities	256,331	161,075	417,406
Cash Flows from Noncapital Financing Activities:			
Payment of deferred charges returned	31,135	0	31,135
Cash Flows from Capital and Related Financing Activities:			
Proceeds of capital debt	0	21,941	21,941
Capital contributions	38,338	0	38,338
Debt principal paid	(404,859)	(60,160)	(465,019)
Debt interest paid	(69,365)	(67,080)	(136,445)
Cash Flows from Investing Activities:			
Cash received for interest	5,606	1,618	7,224
Net Increase (Decrease) in Cash and Cash Equivalents	(142,814)	57,394	(85,420)
Cash and Cash Equivalents Beginning of Year	461,363	110,213	571,576
Cash and Cash Equivalents End of Year	\$318,549	\$167,607	\$486,156
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(\$23,612)	(\$79,545)	(\$103,157)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	283,363	242,816	526,179
Changes in Assets and Liabilities:			
Receivables	(2,360)	(2,159)	(4,519)
Inventories	(5,905)	278	(5,627)
Accounts and other payables	745	(315)	430
Customer deposits	4,100	0	4,100
Net Cash Provided by Operating Activities	\$256,331	\$161,075	\$417,406

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HARTFORD**  
**STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	Agency Funds
	<u>                    </u>
ASSETS:	
Cash and cash equivalents	<u>\$193,507</u>
TOTAL ASSETS	<u><u>\$193,507</u></u>
LIABILITIES:	
Amounts held for others	<u>\$193,507</u>
NET ASSETS	<u>0</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$193,507</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the City of Hartford consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause their financial reporting entity's financial statements to be misleading or incomplete.

The accounting policies of the city conform to generally accepted accounting principles as applicable to governments.

b. Basis of Presentation:

**BASIS OF PRESENTATION**

*Government-wide Statements:* The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole (the City). They include all funds of the reporting entity except fiduciary funds. The statements distinguish between the *governmental and business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities.

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

**Governmental Funds:**

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations or other governments or major capital projects) that are legally restricted to expenditures for specified purposes.

Additional Sales Tax	A fund established by South Dakota Codified Law (SDCL) 10-52-2, to pay debt service on bonds and other costs of capital improvements and land acquisition. The fund is financed by a "Second Penny" retail sales tax collected prior to December 31, 2002. This is not a major fund.
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"Second Penny" sales tax collected after December 31, 2002 is unrestricted, therefore it is accounted for in the General Fund.

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Third Penny Fund	A fund established by SDCL 10-52A used to pay for promotion of the City. It is financed by a gross receipts tax on bars, restaurants and motels. This is not a major fund.
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**Capital Project Funds:** These funds are used to account for building projects including infrastructure improvements and the applicable financing of these projects.

The only Capital Project Fund maintained by the City during 2008 was the "2007 Improvement Fund." The purpose of this fund is to construct selected street, storm sewer, water and sanitary sewer improvements. The project was funded in 2007 by transfers from the General Fund and proceeds of long-term debt (including Special Assessment and "SRF" loans). This is not a major fund in 2008.

**Proprietary Funds:**

**Enterprise Funds** - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply any Financial Accounting Standards Board (FASB) Statements and interpretation issued after November 30, 1989.

Water Fund	a fund used to record financial transactions related to water
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**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

utility operations. This fund is financed by user charges and grants. This is a major fund.

Sewer Fund

a fund used to record financial transactions related to sewer operations. This fund is financed by user charges. This is a major fund.

**Fiduciary Funds:**

Fiduciary funds consist of the following and are never considered to be major funds:

Agency funds - Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds are all special assessment funds.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

**Measurement Focus:**

*Government-wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.



**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Fund Financial Statements:*

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to proprietary and fiduciary funds.

**Basis of Accounting:**

*Government-wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

*Fund Financial Statements:*

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Hartford, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2008 are sales tax, state shared revenues and miscellaneous other revenues.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The business-type activities and enterprise funds do not apply any FASB Statements and interpretations issued after November 30, 1989.

d. Interfund Eliminations and Reclassifications:

*Government-wide Financial Statements:*

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on the interfund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Fund Financial Statements:*

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Statement*

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The total December 31, 2008 balance of governmental activities capital assets includes approximately 80 percent for which the costs were determined by estimates of the original costs. The total December 31, 2008 balance of business-type capital assets includes 70 percent for which the costs were determined by estimation of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalk, drainage systems and lighting systems acquired prior to January 1, 2003, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2003 are recorded at cost, and classified as "Improvements other than Buildings".

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ ALL	-	-
Buildings	50,000	Straight-line	20-100 years
Improvements	25,000	Straight-line	15-50 years
Machinery and Equipment	500	Straight-line	4-20 years

Land, an inexhaustible capital asset, is not depreciated.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of revenue bonds payable and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principle and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

g. Cash Flows and Cash Equivalents:

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows.

1. Charges for services - These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities or investing activities are not reported as components of operating revenues or expenses.

j. Equity Classifications:

*Government-wide Statements:*

Equity is classified as net assets and is displayed in three components:

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

*Fund Financial Statements:*

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

k. Application of Net Assets:

It is the City's policy to first use restricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (continued)

returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits - The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letter of credit issued by Federal Home Loan Banks accompanied by written evidence of that banks public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits city funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

**Credit Risk** - State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices.

No investments were held as of December 31, 2008.



**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (continued)

**Custodial Credit Risk - Deposits** -The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2008, none of the City's deposits in financial institutions were exposed to custodial credit risks.

**Custodial Credit Risk - Investments** - The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

**Interest Rate Risk** - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Concentration of Credit Risk** - The City places no limit on the amount that may be invested in any one issuer.

**Assignment of Investment Income** - State law allows income from deposits and investment to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment.

3. RECEIVABLES AND PAYABLES:

Neither receivables nor payables are aggregated in these financial statements. The City expects all receivables to be collected within one year.

4. INVENTORY

Inventory in the General Fund and enterprise funds consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

4. INVENTORY (continued)

*Government-wide Financial Statements:*

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

*Fund Financial Statements:*

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories of the governmental funds are off-set by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. DEFERRED REVENUE

Receivables, such as taxes receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but which revenue recognition criteria have not been met.

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

**6. CHANGES IN CAPITAL ASSETS**

A summary of changes in general fixed assets for the year ended December 31, 2008 follows:

	<u>Balance 1/1/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/08</u>
Governmental Activities:				
Capital Assets				
Not being				
Depreciated				
Land	\$ 19,813	\$	\$ -	\$ 19,813
Capital Assets				
Being Depreciated:				
Buildings	381,875	-	-	381,875
Improvements	4,544,625	81,834	-	4,626,459
Equipment	946,966	144,410	7,000	1,084,376
Totals	<u>5,873,466</u>	<u>226,244</u>	<u>7,000</u>	<u>6,092,710</u>
Less Accumulated				
Depreciation for:				
Building	203,383	7,137	-	210,520
Improvements	521,490	231,511	-	753,001
Equipment	549,854	48,649	7,000	591,503
Total	<u>1,274,727</u>	<u>287,297</u>	<u>7,000</u>	<u>1,555,024</u>
Total Capital				
Assets being				
Depreciated-				
Net	\$ 4,598,739	\$ (61,053)	\$ -	\$4,537,686

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

6. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/08	Additions	Deletions	Balance 12/31/08
Governmental Activity:				
Capital Assets				
Net	\$ 4,618,552	\$ (61,053)	\$ -	\$4,557,499

Depreciation expense was charged to functions as follows:

General Government	\$ 89,062
Public Safety	22,984
Public Works	137,903
Culture and Recreation	37,348
	<u>\$287,297</u>

Business-type Activities:

Capital Assets

Not Being Depreciated:

Land	\$ 149,000	\$ -	\$ -	\$ 149,000
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Capital Assets

Being Depreciated:

Buildings	550,000	-	-	550,000
Improvements	8,716,718	-	140,526	8,576,192
Equipment	121,393	-	-	121,393
Totals	<u>9,388,111</u>	<u>-</u>	<u>140,526</u>	<u>9,247,585</u>

Less accumulated

Depreciation for:

Building	182,921	11,000	-	193,921
Improvements	2,384,914	404,043	23,920	2,765,037
Equipment	78,529	7,146	-	85,675
Total	<u>2,646,364</u>	<u>422,189</u>	<u>23,920</u>	<u>3,044,633</u>

Total Capital

Assets Being

Depreciated-

Net	<u>6,741,747</u>	<u>(422,189)</u>	<u>116,606</u>	<u>6,202,952</u>
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**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

6. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/08	Additions	Deletions	Balance 12/31/08
Business-type Activity				
Capital Assets				
Net	<u>\$6,890,747</u>	<u>\$ (422,189)</u>	<u>\$ *116,606</u>	<u>\$6,351,952</u>

Depreciation expense was charged to functions as follows:

Water	\$179,373
Sewer	<u>242,816</u>
	<u>\$422,189</u>

\* The "deletion" represents a reclassification to deferred charges.

7. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>Revenue</u>	<u>Other</u>	<u>Compensated Absence</u>	<u>Totals</u>
Governmental Activities:				
Debt Payable, January 1, 2008	\$1,142,191	\$ -	\$ 15,380	\$1,157,571
Additions	-	-	9,860	9,860
Retired	<u>(102,556)</u>	<u>-</u>	<u>(7,700)</u>	<u>(110,256)</u>
Debt payable, December 31, 2008	<u>\$1,039,635</u>	<u>\$ -</u>	<u>\$ 17,540</u>	<u>\$1,057,175</u>
Due within One Year	<u>\$ 103,603</u>	<u>\$ -</u>	<u>\$ 8,770</u>	<u>\$ 112,373</u>
Business-type Activities:				
Debt Payable, January 1, 2008	\$3,578,760	\$182,210	\$ 5,294	\$3,766,264

**CITY OF HARTFORD  
NOTES TO FINANCIAL STATEMENTS**

7. LONG-TERM DEBT (continued)

	<u>Revenue</u>	<u>Other</u>	<u>Compensated Absence</u>	<u>Totals</u>
Additions	\$ 21,941	\$ -	\$ 3,538	\$ 25,479
Retired	<u>(282,809)</u>	<u>(182,210)</u>	<u>(2,700)</u>	<u>(467,719)</u>
Debt payable, December 31, 2008	<u>\$3,317,892</u>	<u>\$ -</u>	<u>\$ 6,132</u>	<u>\$3,324,024</u>
Due within One Year	<u>\$ 153,440</u>	<u>\$ -</u>	<u>\$ 3,066</u>	<u>\$ 156,506</u>

Debt payable at December 31, 2008 is comprised of the following:

GOVERNMENTAL ACTIVITIES:

State Revolving Fund Loan serviced by Sales Tax Revenue, due in quarterly installments of \$13,726.29, including 5% interest. This loan is being retired by the General Fund. Matures in 2022

\$ 529,635

2001 Sales Tax Refunding Bonds; interest rate of 2.8% to 5% depending on length to maturity of individual bond; matures in 2014. The bond is being retired by the General Fund. The debt refunded by this issue was called and paid in full in 2001

160,000

2003 Refunding Certificates of Participation, 2.75% to 4.75% depending on length to maturity of individual bond; maturing annually to 2015, repaid by the General Fund. The debt refunded by this issue was called and paid in full in 2003.

350,000

Accrued leave, payable by General Fund

17,540

TOTAL GOVERNMENTAL ACTIVITIES DEBT

\$1,057,175

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

7. LONG-TERM DEBT (continued)

BUSINESS-TYPE ACTIVITIES:

Revenue Bonds:

State Revolving Fund loans, payable to bank as trustee for the S.D. Department of Environment and Natural Resources, secured by the operating revenue of the fund servicing the debt, as follows:

Water Fund:

- |    |   |           |
|----|---|-----------|
| 1. | Due in quarterly installments of \$9,072.51, including 3.5% interest. Matures in 2024       | 677,966   |
| 2. | Due in quarterly installments of \$19,157.95, including interest at 3.25%. Matures in 2027. | 1,051,805 |

Sewer Fund:

- |    |   |                  |
|----|---|------------------|
| 1. | Due in quarterly installments of \$10,002.65, including 5% interest. Matures in 2022    | 385,956          |
| 2. | Due in quarterly installments of \$5,230.12, including 3.5% interest. Matures in 2022   | 227,552          |
| 3. | Due in quarterly installments of \$9,793.83, including 3.5% interest. Matures in 2024   | 455,657          |
| 4. | Due in quarterly installments of \$8,927.09, including 3.25% interest. Matures in 2028. | <u>518,956</u>   |
|    | Total Revenue Debt  | <u>3,317,892</u> |

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

7. LONG-TERM DEBT (continued)

Accrued leave, payable ½ and ½ by Water and Sewer funds	<u>6,132</u>
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TOTAL BUSINESS-TYPE ACTIVITY DEBT	<u>\$3,324,024</u>
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The annual requirements to maturity for all debt outstanding as of December 31, 2008 are as follows:

Annual Requirements to Amortize Long-term Debt  
December 31, 2008

GOVERNMENTAL ACTIVITIES:

Year Ending December 31,	Revenue Principal	Interest
2009	\$ 103,603	\$ 49,470
2010	115,061	45,862
2011	111,592	40,309
2012	113,201	34,512
2013	124,892	29,157
2014-2018	303,010	76,341
2019-2023	<u>168,276</u>	<u>16,876</u>
Total	<u>\$1,039,635</u>	<u>\$ 292,527</u>

BUSINESS-TYPE ACTIVITIES:

Year Ending December 31,	Revenue Principal	Interest
2009	\$ 153,440	\$ 117,294
2010	159,047	111,778
2011	164,864	105,870
2012	170,898	99,837
2013	177,159	93,575
2014 - 2018	988,279	365,398
2019 - 2023	1,092,841	171,573
2024 - 2028	<u>411,364</u>	<u>34,908</u>
TOTAL	<u>\$3,317,892</u>	<u>\$1,100,233</u>



**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

7. LONG-TERM DEBT (continued)

As of December 31, 2008, there were \$847,832 of Special Assessment Bonds outstanding. These will be paid solely from Special Assessment proceeds collected from citizens. The City is not liable for repayment of this debt, but is only acting as an agent for the property owners in collecting the assessments and forwarding the collections to the bondholders.

8. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During the year ended December 31, 2008 the City managed its risk as follows:

Liability Insurance:

The City purchases liability insurance for risks related to torts; theft of or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Loss from these risks have not exceeded insurance coverage during any of the three preceding years.

Workmen's Compensation:

The City purchases liability insurance for workmen's compensation from a commercial carrier. Loss from these risks have not exceeded insurance coverage during any of the three preceding years.

**CITY OF HARTFORD**  
**NOTES TO FINANCIAL STATEMENTS**

9. RISK MANAGEMENT (continued)

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

10. RETIREMENT PLAN

All employees, except for part-time, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by the State statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for fiscal years ended December 31, 2008, 2007 and 2006 were \$14,538, \$14,046 and \$12,060 respectively, equal to the required contributions each year.

11. SUBSEQUENT EVENTS

In January 2009, the City purchased land for \$175,000. The intended use of the land is for construction of a new building at the cost of approximately \$2,000,000.

**CITY OF HARTFORD**  
**SCHEDULE OF CURRENT AUDIT FINDINGS**

**FINDING NUMBER 2008-01:**

A lack of proper segregation of duties is the present situation in the City's accounting department.

**CRITERIA:** Duties should be segregated so the same employees who handle cash do not record cash transactions nor have general ledger access. Bank reconciliation should be performed by personnel not involved with the check writing process. Other financial and accounting functions should be done by separate people.

**CONDITION, CAUSE AND EFFECT:** The size of the accounting staff employed by the entity precludes an adequate segregation of duties.

**RECOMMENDATION:** The Mayor and Council Members should always be aware of this weakness as they review and approve transactions of the City and resulting financial reports. Compensating controls should be implemented whenever and wherever possible.

**CITY RESPONSE:** The City agrees with the auditor's comment and recommendation.

**FINDING NUMBER 2008-02:**

The Hartford Fire and Rescue Department uses the City of Hartford's sales tax exemption license to purchase goods on a "sales tax-free" basis.

**CRITERIA:** The Hartford Fire and Rescue Department operates under its own control; receiving funding from various sources, including support from the City. Since the City does not control its governing board, bank accounts, or activities in general, it is not deemed to be either a department of the City nor a component unit of the City.

**CITY OF HARTFORD**  
**SCHEDULE OF CURRENT AUDIT FINDINGS**

FINDING NUMBER 2008-02: continued

CONDITION, CAUSE AND EFFECT: Since the Hartford Fire and Rescue Department has operated as an "unincorporated" entity for years, with no defined status, it began to use the City's sales tax license (but not its federal employer identification number) under the mistaken assumption it was connected, or part of, the City. The effect of this situation is a possible violation of sales tax regulations.

RECOMMENDATION: The City should insist that the Hartford Fire and Rescue Department cease using the City's sales tax exemption license and continue its already started process of becoming a formal, defined entity, as a non-profit corporation.

CITY RESPONSE: The City agrees with the comment and recommendation. Implementation of the recommendation has already begun.

**CITY OF HARTFORD**  
**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**

**FINANCIAL STATEMENT FINDINGS:**

FINDING NUMBER 2007-01 and 2006-01:

A lack of proper segregation of duties is the present situation in the City's accounting department.

This finding was first reported in 1998.

**CURRENT STATUS:**

The condition remains the same as of December 31, 2008.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:**

FINDING NUMBER 2007-02:

A material weakness in internal control over federal programs exists due to a lack of segregation of duties.

**CURRENT STATUS:**

The condition remains the same as of December 31, 2008.